

CHAPTER 1
GENERAL PROVISIONS COVERING FINANCIAL AUTHORIZATIONS FOR
CONTRACT PAYMENTS AND COLLECTIONS

0101 INTRODUCTION

010101. Department of Defense Financial Management Regulation

A. This is Volume 10, Contract Payment Policy and Procedures, of the Department of Defense (DoD) Financial Management Regulation (DoD 7000.14-R). This volume provides contractor and vendor payment policy and procedures for DoD disbursing offices.

B. This volume incorporates some of the payment policy and procedures from the Defense Logistics Agency Manual 7000.1; Army Regulation 37-1; Air Force Regulation 177-102; Navy Comptroller Manual NAVSO P-1000, Volume 4; Marine Corps 4200.15F, Marine Corps Purchasing Procedures Manual; and DoD Accounting Manual 7220.9-M. There are different payment systems in use at each of the five Defense Finance and Accounting Service (DFAS) Centers. Each DFAS Center will continue to publish detail guidance, in line with the particularities of their payment system(s), to implement the policy and procedures contained in this volume and required by law. This may include some of the other policies and procedures from manuals and regulations cited in the first sentence of this paragraph. The long-range goal is to incorporate all of the DoD Components and DoD contractor payment manuals and regulations into this Regulation (DoD 7000.14-R). Until the transition is complete, the applicable DoD Components' manual and regulations may be used to supplement this Regulation. In case of conflict between those applicable regulations and manuals, this Regulation will prevail.

C. This volume does not provide desk procedures for any contractor payment system at any of the disbursing offices. Desk procedures will be developed by each DFAS Center which will enable each of them to support their current payment system(s) until such time as all DoD disbursing offices are operating under the same payment system.

010102. General

A. This volume governs the determination of the propriety for expenditure of funds for materials and services, as well as information for contractor debt collection. Each contracting document should designate the disbursing office which will make the payment on the contract. Unless otherwise stated in writing, only the disbursing office designated by the contracting document may make payment. This volume provides the necessary guidance to the disbursing office to ensure that payments are made properly.

B. See Volume 1 for a list of the definitions used in this Regulation.

★ 010103. Matching of Request for Payments to Obligations and Liabilities Before Disbursement

★ A. Obligations are established as prescribed in Volume 3, Chapter 8 of this Regulation. Liabilities, including accounts payable, are established as prescribed in Volume 4, Chapters 8 and 9 of this Regulation. The specific obligations directly related to each payment request must be identified before the requested payment is made. Also, the undisbursed balance of each applicable obligation must be sufficient to cover that obligation's share of the requested payment before the payment is made. In addition, the undisbursed balance shall be sufficient to also cover all entitlements for payments that have been previously scheduled against the obligation. In the case of open contracts funded by canceled appropriations, memorandum obligation records will be maintained and used in the same manner as for non-canceled appropriations

★ B. General Payment Distribution Requirements

★ 1. To enable the paying office to match payments to the applicable obligations, requests for payment must identify amounts by contract line items (CLINs) or subline items (SLINs), as specified in subparagraphs 010103 C., D., and E. below. For delivery payments, distributions of the requested amount to CLINs or SLINs should be based on actual deliveries or performance. For financing payments, the distribution to CLINs or SLINs can be made on best estimates based on available information.

★ 2. If at any time the Administrative Contracting Officer becomes aware of information that indicates a distribution of financing payments is in error, the paying office shall be immediately advised of the necessary change in distribution. If prior payments are involved, the matching of such payments to obligations shall be adjusted and the payments correctly applied. However, such adjustments to the payment records should not impact actual payments to the contractor.

★ 3. No CLIN or SLIN shall be funded by both R&D and non-R&D obligations.

★ 4. Upon completion of a delivery payment, the applicable amounts of financing payments previously identified with each obligation shall be adjusted to reflect the matching delivery payment.

★ C. Research and Development (R&D) Contracts

★ 1. For purposes of this subparagraph, an R&D contract is defined as one that is:

- ★ a. A contract for R&D purposes as defined in DFARS 235.001, and
- ★ b. Funded with R&D appropriations.
- ★ 2. Separate CLINs or SLINs within a non-R&D contract that meet the above definition of an R&D contract will be considered R&D (rather than non-R&D) contract line items and the policies in this section apply to such line items.
- ★ 3. R&D contracts, R&D CLINs, or R&D SLINs may have multiple R&D fund citations.
- ★ 4. If provided, distribution of payments to contract lines and related obligations shall be in accordance with Administrative Contracting Officer direction. In the case of delivery payments, the contractor should provide an identification of the specific CLINs and/or SLINs on the invoice.
- ★ 5. For delivery payments, the payment shall be applied solely to the obligations identified with the specific CLINs and/or SLINs for which delivery has occurred. Entitlement to the payment will be verified by matching the contractor's invoice for specific CLINs/SLINs with a record of the delivery and/or acceptance. Before the requested payment is made, the balance of undisbursed amounts (unliquidated obligations), must be sufficient to cover this requested payment as well as all previously scheduled entitlements. Payments will be made in a manner consistent with the provisions of the Prompt Payment Act.
- ★ 6. For financing payments, in the absence of Administrative Contracting Officer direction, R&D contractor work shall be assumed to be performed for the benefit of the oldest undisbursed (unliquidated) obligations. Therefore, in the absence of direction identifying the distribution of payments to specific CLINs and/or SLINs, a financing payment request for an R&D contract, or R&D CLINs and/or SLINs within a non-R&D contract, shall be distributed by the paying office to the oldest undisbursed obligations available.
 - ★ a. To distribute the payment to the oldest undisbursed obligations on contracts funded by more than one obligation, such obligations shall be grouped by the fiscal year (FY) of the financing appropriation(s).
 - ★ b. If, when an R&D payment is distributed to a specific FY, undisbursed balances are available on any obligation for that FY, the payment amount applicable to that FY shall be distributed on an equal percentage basis to all the unpaid obligations for that FY. For example, if the available undisbursed balances for all the obligations within a FY total \$1,000 and the financing payment totals \$200, the payment shall be distributed to 20 per cent of each of the unliquidated obligations.

★ D. Non-R&D Contracts

★ 1. Contracting officers will structure all non-R&D contracts and modifications to non-R&D contracts to ensure that a separate CLIN or SLIN is established for each unique obligation. In no instance shall a SLIN be funded by more than one obligation nor shall a CLIN, that does not have supporting SLIN(s), be funded by more than one obligation.

★ 2. For each payment request under a non-R&D contract, the Administrative Contracting Officer or, in the case of delivery payments, the contractor shall provide the paying office with an identification of the payment by SLIN or CLIN (when a CLIN does not have supporting SLINs). The identification will be based on actual performance for all delivery payments. This identification shall be provided either with each request for payment, except in the case of contract financing payments. Contract financing payment requests may be provided as an extended schedule for application to multiple requests on one contract. The distribution of contract financing payments may be based upon:

★ a. The contract delivery schedule;

★ b. A profile of anticipated contractor expenditures developed by the program or item manager, or developed within the contract administration office, based on historical spending patterns, or other knowledge of contractor performance of similar efforts;

★ c. Contract Funds Status Reports provided under a contract requirement for contractor cost reporting, if available;

★ d. Other specific information that is pertinent to developing a reasonable forecast of the contractor's work progress;

★ c. A best estimate of the contractor's anticipated work progress based upon a general knowledge of the contractor or industry practices.

★ 3. Based upon the distribution by CLIN or SLIN, a request for financing payment shall be matched and posted to the applicable obligation records. For example, if the payment amount is distributed 30 percent to one CLIN; 20 percent to a second CLIN; and 50 percent to a third CLIN, then, 30 percent of the payment should be charged to the obligation funding the first CLIN, 20 percent of the payment should be charged to the obligation funding the second CLIN, and 50 percent of the payment should be charged to the obligation funding the third CLIN.

★ 4. For delivery payments, the payment shall be applied solely to the obligations identified with the specific CLINs and/or SLINs for which delivery has occurred. Entitlement to the payment will be verified by matching the contractor's invoice for specific CLINs/SLINs with a record of the delivery and/or acceptance. Before the requested payment is

made, the balance of undisbursed amounts (unliquidated obligations), must be sufficient to cover this requested payment as well as all previously scheduled entitlements. Payments will be made in a manner consistent with the provisions of the Prompt Payment Act.

★ 5. If an obligation does not have a sufficient undisbursed balance to cover the withhold amount plus the identified amount of a payment request and the amounts of entitlements previously scheduled against the obligation, the Administrative Contracting Officer and the source finance and accounting office shall be contacted to assist in resolving the imbalance before the payment is made.

★ E. Mixed Contracts

★ 1. For contracts that include both R&D and non-R&D lines, the Administrative Contracting Officer shall provide the paying office with identification of the R&D and non-R&D CLINs or SLINs.

★ 2. The R&D CLINs or SLINs on such contracts shall be treated under subparagraph 010103 C. above, and the non-R&D CLINs or SLINs shall be treated under subparagraph 010103 D. above.

★ 3. On payment requests for mixed contracts, the Administrative Contracting Officer shall identify the amount distributed to each non-R&D CLIN or SLIN and the total amount distributed to all R&D CLINs and SLINs.

0102 CONTRACTS

010201. General

A. The contracting office that executes a contract or modifies it distributes the copies in accordance with the Federal Acquisition Regulation (FAR) 4.2 and the DoD Federal Acquisition Regulation Supplement (DFARS) 204.202. Except for contracts specified in paragraph 010201-B and 010201-C, a signed copy is sent to the disbursing office. A signed copy is a complete and accurate copy of the obligating document and includes the date of execution and names and titles of those who sign them. The disbursing office's copy supports the payment and is attached to the retained copy of the payment document. For electronic transmission of information, see Chapter 17 of this volume.

B. For small purchases, as defined in FAR 13.000, the original copy of the purchase order (DD Form 1155, Order for Supplies or Services), will be signed by the contracting officer, and will be sent to the disbursing office. Upon receipt of the material or services, the receiving office forwards one copy of the order to the disbursing office as proof of receipt. After processing as a proof of receipt, disbursing office personnel will attach this copy to the retained copy of the payment document.

C. Authenticated or signed copies of Buy U.S. Here (BUSH) contracts are not required to be sent to the disbursing office. The overseas base contracting officers provide their local disbursing offices with a copy of the BUSH authorized price lists.

010202. Contracting Relationship

Close working relations between the disbursing office and contracting personnel (Procurement Contracting Officer (PCO), Administrative Contracting Officer (ACO), or Termination Contracting Officer (TCO)), are necessary for the timely and accurate handling of financial transactions in contracting and paying for material and services. Functions are so interrelated that disbursing office personnel must be familiar with contracting regulations. These include, but are not limited to the FAR, DFARS, and the Prompt Payment Act (PPA) of 1982, Public Law 97-177, and the PPA Amendments of 1988, Public Law 100-496. The references to contracting policies in this manual are only for guidance to disbursing offices. The contracting manual governs contracting actions.

010203. Number of Payments

A contract or purchase order may be paid on one voucher if all materials or services are received. There is no limit to the number of partial payments that may be made unless the contractual document states otherwise. Except for final payment, partial payments will only be made if payment amount is \$10 or more.

010204. Contractor Invoices

A contractor's invoice represents a bill or written request for payment. To be considered proper, an invoice must contain specified information. Paragraph 070201 lists the criteria for a proper invoice.

010205. Classified Contracts

When a basic contract is classified with a very restrictive and limited need to know, the disbursing office may receive a copy containing the minimum data required for payment. These contracts are sufficient support on which to base payments. Disbursing offices must ensure that classified information is appropriately safeguarded. Payment documents must be processed as if it were a "normal" payment, and before a payment is made, all prescribed documentation necessary for payment must be in the disbursing office.

0103 QUALITY AND INTERNAL CONTROL

010301. Quality Control

The disbursing office will establish a Quality Control function to review their payment process to help ensure that payments are made correctly and in a timely manner. There

are numerous quality control issues that will be included in the area of responsibility. As a minimum, the following tasks will be performed:

- A. Determine compliance with prescribing regulations and directives.
- B. Determine timeliness of responses to internal and external requests.
- C. Suggest changes to operating procedures, within regulations and directives, to increase the efficiency of the office.
- D. Determine that operating procedures contain ample internal controls and that they are applied in actual operations.
- E. Assist in conducting training sessions.
- F. Determine the need to follow-up on external audit and internal review reports.

010302. Internal Control

The disbursing office must ensure that written internal controls are in place to preclude improper preparation, certification, and payment of monies, as well as the proper handling of debt collection from contractors or other business entities. Internal control standards are issued by the Comptroller General for use in establishing and maintaining systems of internal control. Those standards are applicable to all operations and administrative functions. However, they are not intended to limit or interfere with duly granted authority for the development of legislation, rulemaking, or other discretionary policy making.

010303. Contract Reconciliation

Upon request, the disbursing office will work with the PCO, ACO, TCO, or the funding station to provide information on dormant contracts. In many of these situations, the actions being requested require the contract administrator to become involved and provide the information rather than the disbursing office.

010304. Electronic Signature

A. Electronic signature is the recommended method of approving vouchers processed through an automated system. If final certification of vouchers is accomplished electronically, the electronic signal or symbol adopted as the certifying officer's electronic signature must be:

1. Unique to the certifying officer.
2. Capable of verification.
3. Under the sole control of the certifying officer.

B. Electronic certification of the final voucher also requires that control procedures be in place to ensure the authenticity of transmitted data, including the electronic signature. Such controls must provide reasonable assurance that deliberate or inadvertent manipulation, modification, or loss of data during transmission is detected.